Renewed fervor for Google lifts stock above $800

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By MICHAEL LIEDTKE
AP Technology Writer

SAN FRANCISCO (AP) - Google's stock price topped $800 for the first time Tuesday amid renewed confidence in the company's ability to reap higher profits from its dominance of Internet search and prominence in the growing mobile market.

The milestone comes more than five years after Google's shares initially hit $700. Not long after breaking that barrier in October 2007, the economy collapsed into the worst recession since World War II and Google's stock tumbled into a prolonged malaise that eventually led to a change in leadership.

Besides enriching Google's employees and other shareholders, the company's resurgent stock is an implicit endorsement of co-founder Larry Page. He replaced his managerial mentor, Eric Schmidt, as CEO in April 2011. Google's stock has risen by 36 percent since Page took over. By contrast, the benchmark Standard & Poor's 500 index has climbed by 15 percent over the same stretch.

Most of Google's gains have occurred in the past seven months - a period that has overlapped with a sharp downturn in the stock price of rival Apple Inc. The iPhone maker's market value has plunged by about $230 billion, or 35 percent, since late September.

"All that Apple money had to go somewhere," said BGC Financial analyst Colin Gillis.

Standard & Poor's Capital IQ analyst Scott Kessler concurred, reasoning that many investors who have abandoned Apple are gravitating to one of its biggest rivals.

Google makes and distributes its free Android software to Samsung Electronics Co., HTC Corp. and other mobile device makers looking to compete with Apple's iPhone and iPad. Since its 2008 introduction, Android has established itself as the most popular mobile operating system, partly because the free software makes it easier for device makers to undercut Apple's prices for iPhones and iPads.

Android is set up to feature Google's search engine and other services, giving the company a chance to sell more ads.

"If you are looking at Apple's peers in its space and see who seems to be really doing well right now, it makes a lot of sense to invest in Google now," Kessler said.

Despite its diminished luster, Apple remains the most valuable U.S. company with a market value of $432 billion. Google now ranks third with a market value of $266 billion, with Exxon Mobil Corp. holding the spot in between at $402 billion.

Google's stock climbed $13.96, or 1.8 percent, to close Tuesday at $806.85.

Analysts who follow Google still see room for some modest gains. The stock's average price target among analysts surveyed by FactSet now stands at $834.40. Five of the 37 polled analysts are predicting Google's stock will surpass $900 within the next year.

"There are probably even going to be people talking whether Google's stock can get to $1,000," Kessler said. "Never underestimate the excitement that can be caused by a rising stock market

and a rising security."

Gillis warned that Google's stock might retreat within the next six weeks, based on historical trading patterns. During the first quarter in each of the past five years, Google's stock has declined by at least 10 percent from its peak price within the three-month period. The trend may have something to do with the opening three months of the year being a traditionally sluggish period for advertising, according to Gillis.

"I fully expect investors to have another opportunity to buy Google's stock at prices below $800," Gillis said. His price target on Google remains at $760.

The significance of crossing the $800 threshold is largely symbolic. If Google had its way, the stock wouldn't even be priced near these levels.

The company, which is based in Mountain View, Calif., had hoped to split its stock last year in a move that would have at least temporarily halved the trading price by doubling the total number of outstanding shares. But the proposed stock split was put on hold until Google resolves a shareholder lawsuit alleging that the stock split unfairly cedes too much power to Page and fellow co-founder Sergey Brin. Page and Brin have been the company's largest shareholders since its inception. A trial on the lawsuit is scheduled to begin June 17 in a Delaware state court.

Assuming more investors wouldn't have rushed to buy more Google stock just because it split, the company's market value probably wouldn't have changed from its current level.

There is little dispute among analysts that Google appears well positioned for many years of prosperity for these reasons:

- Its Internet search engine remains the hub of the Web's biggest marketing network;

- Its YouTube video site has established itself as an increasingly attractive advertising vehicle and could broaden its reach as more people get Internet-connected televisions;

- Its Android software is running on more than 600 million smartphones and tablet computers, creating new advertising opportunities.

Google already dominates mobile advertising, with its U.S. revenue from that business expected to approach $4 billion this year, up 84 percent from nearly $2.2 billion in 2012, according to the research firm eMarketer. Google commands a 55 percent share of the mobile ad market, based on eMarketer's estimates. Google doesn't disclose how much of its $44 billion in annual worldwide ad revenue comes from mobile devices.

Some investors have raised concerns that mobile ads have been commanding lower prices than ads on regular Web pages, reducing the average rate for ads. The company is trying to address that with a revamped ad system that will prod more marketers to buy mobile ads when they are creating campaigns for desktop and laptop computers. That, Google hopes, will raise demand and thus prices.

Opinions about Google weren't as upbeat a few years ago. Although Google weathered the Great Recession better than most companies, its revenue growth slowed and its stock plummeted to as low as $247.30 near the end of 2008.

Things looked so bleak in 2009 that Google took the rare step of re-pricing stock options that had been doled out to its employees to give them a chance to make more money when the shares rebounded. The program allowed Google workers to swap their old stock options for new ones with an exercise price of about $308. The employees who have held on to the re-priced options would make nearly $500 per option if they were to exercise them now.

Although he didn't receive any of those re-priced options, Schmidt is poised to pocket a huge windfall by selling 42 percent of the shares that he owns in the company during the next year. The 3.2 million that Schmidt, now Google's executive chairman, has earmarked for sale are currently worth about $2.6 billion. Google says the stock sales are part of Schmidt's strategy to diversify his investment portfolio so less of his wealth is locked up in the company.

Even after the economy snapped out of the recession toward the end of 2009, Google's stock

began to lag the rest of the market. Investors began to wonder if the company was losing its competitive age as it morphed from a hard-charging startup to giant organization with thousands of employees working in dozens of offices scattered around the world.

At the same time, Facebook was emerging as the Internet's fastest growing company in a meteoric rise. The social networking company had some people convinced it would eventually become a more important advertising vehicle than Google's search engine.

Perceptions have changed since Page became CEO. Under Page's leadership, Google has streamlined its decision-making and operations while closing dozens of its less popular services. It established its own toehold in social networking with the 2011 introduction of Google Plus.

Meanwhile, Facebook Inc. so far hasn't lived up to the hyperbole that that made its initial public offering of stock one of the biggest in U.S. history. Since going public at $38, Facebook's stock has sunk 24 percent.

By contrast, Google's stock has never slipped below its August 2004 IPO price of $85.